

DOCUMENT REVIEWED:	“Public Charter Schools: A Great Value for Ohio’s Public Education System”
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PUBLISHER/THINK TANK:	The Buckeye Institute for Public Policy Solutions
DOCUMENT RELEASE DATE:	November 14, 2008
REVIEW DATE:	December 10, 2008
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SUGGESTED CITATION:	
	Miron, G. (2008). <i>Review of “Public charter schools: A great value for Ohio’s public education system.”</i> Boulder and Tempe: Education and the Public Interest Center & Education Policy Research Unit. Retrieved [date] from http://epicpolicy.org/thinktank/review-charters-ohio

Summary of Review

This Buckeye Institute policy brief sets out to document problems and inequities in charter school finance in Ohio, but it falls short in providing a comprehensive presentation of evidence. It ignores relevant research literature and extensive findings from the official state evaluation. It incorrectly assumes that charter schools serve the same types of students and provide the same range of services, and it does so based on only partial revenues. Perhaps most troubling, the report’s primary findings—that districts gain revenue for each student who attends a charter school and that there would be a net loss of revenues for districts if charter schools were closed—are based on an ungrounded and misleading interpretation of Ohio’s mechanism for funding schools. To illustrate these problems, this review presents a comprehensive description of particular cost advantages and disadvantages that charter schools face. Such comprehensiveness is important for seeing through one-sided arguments from opponents or advocates that may not take into consideration the whole range of factors that affect the equitable distribution of revenues.

Review

I. INTRODUCTION

The financing of charter schools is highly contentious. Traditional public schools are concerned that charter schools receive too much money for the students they educate and the range of services they provide. Charter schools, on the other hand, are upset that they receive less per pupil and have fewer options for facility finance. This issue remains controversial and difficult to resolve due to a number of reasons, including the following:

- Funding formulas for public schools and charter schools alike tend to be complex and rely on many factors and variables. These complexities often play out differently for schools enrolling different types of students.
- Funding formulas for charter schools vary extensively from state to state. Reasonable arguments regarding inequities of funding in one state cannot be transferred to other states.
- Multiple types and sources of revenues for charter schools are not easily captured and reported. In addition to public funding from local, state, or federal sources, many charter schools are effective in securing private sources of funding that are dedicated specifically to charters. Much of this funding can be outside the purview of analysts. Private funds are not incorporated in state purchasing and accounting systems or are held and spent on behalf of the charter school by a trust or foundation set up to serve the school or to secure a facility.

With each passing year, new analyses and position papers on charter school finance are released. Many of these further complicate the understanding of charter school finance because they present only selective data or partial evidence that supports a particular position. A new Buckeye Institute report titled *Public Charter Schools: A Great Value for Ohio's Public Education System* falls into this group of papers that are intended to advocate, obscure, and redirect attention rather than deepen understanding and insight.¹

II. FINDINGS AND CONCLUSIONS OF THE REPORT

Key findings from the report include the following:

- Ohio's public charter schools (referred to as "community schools" in Ohio) never receive funds raised by a school district's property tax.
- Charter schools operate with substantially less revenue per student, as compared to other public schools, in each of the so-called Big 8 city school systems.²
- Every Big 8 city school system receives a net gain in revenue, on average, for each student choosing to attend a charter school.
- The return of public charter students to each Big 8 city school district would result in a net per-pupil loss of revenues for the district. As a result, these districts would face either lower per-pupil spending levels or significant property tax increases to maintain current spending levels.

III. THE REPORT'S RATIONALE FOR ITS FINDINGS AND CONCLUSIONS

The findings and conclusions are largely based on a discussion of select aspects of the funding formula for public schools in Ohio. For instance, the finding that charter schools receive no funds raised by local property taxes is based on a superficial reading of the description of the funding formula for charter schools in the state's Foundation Funding Program.³

The finding that charter schools operated with less money than the Big 8 city school systems is based on a comparison of undated per-pupil revenue data, but (as discussed below) this analysis excludes several sources of revenues.

The last two findings—that districts gain revenue for each student who attends a charter school and that there would be a net loss of revenues for districts if charter schools were closed—are based on a false and misleading interpretation of the state mechanism for funding schools.

IV. THE REPORT'S USE OF RESEARCH LITERATURE

The policy brief includes very few references to research literature. Only one research report is cited; this was an evaluation report prepared by the Legislative Office of Education Oversight.⁴ Interestingly, and as described later, this same report contains information suggesting that district school finance was negatively affected by charter schools—countering the claims in the brief—but such findings were not cited or considered in the Buckeye policy brief.

The absence of research literature is surprising for two reasons. First, extensive research on this topic exists,⁵ and second, the policy

brief notes that the lead author is a doctoral fellow at the University of Arkansas, a research university.⁶

V. REVIEW OF THE REPORT'S METHODS

The policy brief contains no specific methods section, although there are some references to methods used when these are not obvious to the reader.

The policy brief provides a partial description of the state funding formula for charter schools, although a more complete and accurate description of the funding mechanism for charter schools can be obtained from the Ohio Department of Education Web site⁷ or from the state evaluation report of charter schools.⁸

With regard to the methods used to compare revenues, the authors create tables with undated information from select revenue sources. The data in the table are reported to be averages calculated for the charter schools in each of the eight large urban districts in the state. The authors then undertake summative analyses and compare charter schools with the Big 8 city school systems.

Assumptions underlying the data used for their analyses are not accurately spelled out and are misleading. For example, the policy brief assumes that all revenues are captured in the "FS-3" form that is used for calculating the school foundation formula. However, as described below, the FS-3 data exclude many sources of revenue. Furthermore, the authors have ignored important sources of finance data for charter schools in Ohio, namely, the audit reports from the Ohio Auditor of State Office⁹ and the state's five-year forecast reports.¹⁰ The audit reports in particular provide a more comprehensive review of revenues and expendi-

tures, and the data in these reports speak to the issue of financial viability and funding sufficiency.

When reading the new research literature as I prepared to write this review, I was struck by the fact that most analyses of charter school finance are riddled with explanatory notes. In fact, it would be difficult to provide a fair and balanced description of charter school finance without carefully stipulating all the exceptions to the rules and the limitations in the data. Nevertheless, the analysis from the Buckeye Institute does not list a single limitation in the data or provide a single cautionary note for readers.

Although school funding formulas are complex and confusing, every state has experts who can assist researchers and analysts in interpreting and understanding the complexities. Unfortunately, the authors of the Buckeye Institute policy brief did not take advantage of any state experts who could have provided valuable insights or suggestions, aiding them in preparing a complete and fair presentation of evidence.¹¹

VI. REVIEW OF THE VALIDITY OF THE FINDINGS AND CONCLUSIONS

The first finding in the Buckeye Institute policy brief claims that Ohio's public charter schools do not receive funds raised by a school district's property tax. In the middle of the report (p. 5), the authors qualify this finding by stating that "public charter schools do not directly receive any locally raised property tax revenues." The key word is "directly."

It is true that state law prohibits charter schools from levying taxes and that the school district must levy a set property tax (minimum 30 mills) based on property values rather than the number of students that a

district enrolls. It is also true that districts do not pay locally raised tax dollars directly to charter schools. However, these districts must deduct from the state funds an equivalent of a 32 mill tax regardless of the number of students enrolled in the district or in charter schools. If a district is affluent its 32 mill tax is large and offsets a considerable portion of state funds. If a district has a poor property base, it raises less with the millage tax and the state share is larger. In contrast, since charter schools are not required or permitted to levy taxes, they do not have to make deductions in the state funding they receive.

When a student moves from a district school to a charter school, state funding effectively follows. When state revenues are diverted to charter schools, less state revenues are provided to the local district, meaning that a greater proportion of locally raised money is needed to fund the education of district students. Accordingly, and as described in greater detail later in this review, charter school enrollments do have an impact on locally raised taxes because those taxes are an inextricable part of the overall school funding mechanism in Ohio. Charter schools definitely benefit indirectly from locally raised taxes.

The authors clearly want to underline the point that public charter schools do not directly receive revenues from local property taxes.¹² This narrow interpretation, however, is misleading and the distinction has little relevance, especially since charter schools have led to substantial increases in overall public spending on schools in Ohio.¹³

Charter School Finance in Ohio: A More Complete Description

The second key conclusion of the Buckeye Institute policy brief is that charter schools

receive substantially less in revenues than do traditional public schools. This finding, to be meaningful, assumes that charter schools serve the same types of students and provide the same range of services, which is not the case. Furthermore, because this conclusion is based on only partial revenues, it is not possible to draw such a conclusion from the evidence presented in the report.

The intent of the Ohio funding formula is to provide equal funding for all public schools based on the types of students they serve and the range of services they provide. The statute *ORC 3314.08* provides the basis for how charter schools are funded in Ohio. These schools receive funding from the state through what is essentially the same per-pupil foundation allocation used for traditional public schools. Funding follows the student, so the funding formula calculates a sum that is multiplied for each full time equivalent (FTE).¹⁴

The foundation funding consists of a set formula amount, which for the 2008-09 school year is \$5,732 for each student. On top of this base amount is added poverty-based assistance,¹⁵ intervention aid (Levels I, II, and III), funding for limited-English-proficient students, professional development for teachers, and funding for all-day kindergarten, dropout prevention, class-size reduction, and community outreach. Schools that enroll children with special education needs receive additional funding that is based on a formula with six separate weights that reflect the differences in costs for typical remediation support, depending on the type of disability. Finally, charter schools also receive parity aid,¹⁶ and they can receive support for gifted units, career-technical education, adult education services, and transportation, if they provide these services.

Cyber charter schools or e-schools also receive the formula amount and the special education weighted amounts, but they do not receive the other smaller categories or types of funding.

Relative to other states, Ohio's practices for funding charter schools are rather sophisticated and distinctive with regard to the extent that they ensure equal funding to districts and charter schools based on the types of students they serve and the types of services they provide. The funding formula is exceptional in that it has a sensitive adjustment for children with special needs. Furthermore, the funding mechanism is sensitive to the movement of students during the school year.¹⁷ The state also is able to adjust, on a prorated basis, the funding when students move to or from charter schools during the academic year, although some of these adjustments are made in the subsequent year.

Cost Advantages and Disadvantages

While opponents of charter schools have argued those schools receive too much funding, advocates for charter schools claim that they are underfunded. Below, I have included a list of reasons or factors that suggest that charter schools might have cost advantages or disadvantages relative to traditional public schools.

Cost advantages for charter schools (setting aside for the moment the question of how much funding is allocated to each type of school):

- Increased autonomy allows charter schools the flexibility needed to be more responsive and efficient.
- Charter schools are community-based and better able to solicit in-kind contri-

butions from families, community partners, businesses, and private organizations.

- Charter schools are able to apply for additional federal grants and sometimes state grants for start-up and implementation of the school, as well as for the dissemination of ideas. Start-up grants are also available from private foundations and organizations.
- Charter school teachers typically receive lower salaries than traditional public school teachers, which is a substantial cost savings for these schools.¹⁸
- Charter schools can limit enrollments to ensure an efficient match with existing facilities and instructors.¹⁹
- An increasing number of charter schools are cyber schools that require minimal infrastructure in terms of facilities.

Cost disadvantages for charter schools:

- Most charter schools are start-up schools that require a lot of initial funding, particularly for facilities, and federal start-up grants are insufficient, especially when the renovation or purchase of a facility is involved.
- Charter schools tend to be small and lack districts' economies of scale.

Traditional public schools confront a few cost disadvantages when charter schools increase the movement of students across school types. The general unpredictability of enrollments creates both budgeting and planning problems for school districts that they did not have to deal with prior to the existence of charter schools.²⁰ As noted above, districts cannot cost-efficiently limit the number of students they enroll to match facilities and teaching staff. They must enroll all students who request a place and sometimes have to operate half-full classes. Also, district schools often find out about

students leaving or returning too late to adjust staffing to efficiently accommodate the addition or removal of students.

Recognition of these particular cost advantages or disadvantages are important for understanding that both advocates and opponents of charter schools can present one-sided arguments that may not take into consideration the whole range of factors that affect the equitable distribution of revenues.²¹

Serving Less-Costly-to-Educate Students and Providing Fewer Programs

The Buckeye Institute policy brief implicitly assumes that charter schools serve similar students and offer similar services and programs as traditional public schools.

The evidence from the state evaluation of charter schools, however, concludes that, on the whole, charter schools are serving less-costly-to-educate students.²² The state evaluation report found that charter schools largely catered to elementary grades and were much less likely than traditional public schools to serve high school students. High schools tend to cost 20% to 30% more per pupil than elementary school students.²³ Further, traditional public schools enrolled almost twice the proportion of students with disabilities. To illustrate how important this factor can be, a few of Ohio's charter schools that serve a disproportionately *high* number of students with disabilities receive operating revenues close to \$30,000 per pupil each year.

In summary, if a charter school provides a full range of services (e.g., vocational training, adult education, transportation, etc.) and serves the most-costly-to-educate students (e.g., students with severe disabilities and children in poverty), it can secure far more in revenues from the state.²⁴ On average, how-

ever, this has not been the situation in Ohio, which explains why charters would tend to receive less funding through the state formula.

Considering All Sources of Revenue

The manner in which the evidence from the Buckeye Institute is presented also implicitly assumes that charter schools are not receiving federal grants or private sources of revenues. Yet as with all public schools, charter schools may seek additional funds through grants and other government and private sources. Other major grant opportunities are available only to the charter sector. Many—but certainly not all—charter schools are quite successful at attracting private sources of funding.

The Buckeye Institute policy brief attempts to portray the revenue situation for charter schools as unfair and inequitable. The brief makes its case by not reporting all revenues and by not acknowledging the large differences in revenues among charter schools. A careful look at the complete set of revenues would reveal that—as is the case with public schools in general—some charter schools are clearly advantaged in terms of total revenues and some are clearly underfunded for the students they serve and the programs and services they deliver. On the whole, however, most charter schools in Ohio appear to be receiving fair and equitable amounts of total revenues.

A fair means of describing revenues requires a review of all sources. Sullins and Miron²⁵ thoroughly analyzed all sources of revenue for four charter schools in Cleveland and found that three of the four schools had substantial revenues from private sources. In fact, those three had total per-pupil revenues that exceeded the per-pupil revenues for the Cleveland Municipal School District in the same year.

The state evaluation of charter schools in Ohio contained the following findings that indicate that charter schools are receiving adequate revenues:

- Two-thirds of the charter schools that were audited had surpluses.
- Charter schools receive start-up grants from both the state (\$50,000 for each of the first four generations of schools) and federal government (up to \$450,000 over three years).²⁶
- Charter schools were spending \$224,232 (median value) a year beyond what they received in state aid, which strongly suggests they receive revenues from other sources.

While it is true that most—but not all—charter schools receive less per pupil in revenue than traditional public schools, it still is possible that charter schools have cost advantages if they serve less-costly-to-educate students and if they provide a narrower range of services.²⁷

Charter schools are created based on a contractual relationship that is built on a transparent understanding of how they are funded. When charter schools sign the contract to begin operating, they do so with an understanding that they are willing to accept their responsibility to provide a quality public education based on the state funding formula. The fact that a larger number (approximately 315) of charter schools have opened in Ohio suggests that many operators are willing to accept the funding arrangements. Similarly, the fact that 10 for-profit education management organizations (EMOs) have chosen to operate charter schools in Ohio²⁸ also suggests that funding is sufficiently robust for even profit-oriented businesses to be seize the opportunity.

Increased Charter School Enrollment Benefits Districts Financially—Really?

The last few conclusions in the policy brief are based on the notion that students who enroll in charter schools actually benefit districts financially. These claims are unfounded and outlandish.

The state evaluation of charter schools, led by the nonpartisan Legislative Office of Education Oversight (LOEO) closely studied the issue of financial impact of charter schools on districts. The LOEO evaluators devoted considerable attention to this issue and carefully presented their findings, which were backed by numerous technical appendices. Contrary to the claims of the Buckeye Institute, the state evaluators concluded that charter schools were having a negative impact on the finances of school districts: “LOEO concludes that the greatest impact of community schools on school districts has been financial . . . [districts] are not able to reduce costs proportionately on a year-to-year basis.”²⁹

The Buckeye Institute policy brief was able to reach a different result by assuming that districts retain local tax revenues that were earmarked for charter school students. But local tax dollars are not raised on a per-pupil basis. The district collects the same amount of local tax dollars based on a 32 mill charge-off regardless of the number of students enrolled in the district or the number of students who leave for charter schools. In addition, the locally raised taxes offset state funding for district students. Therefore, as students leave for charter schools, the following happens:

1. the overall costs go down for school districts;
2. the amount of locally raised taxes stays the same because it is based on a millage tax; and
3. as a result of this, the district receives fewer state dollars since the locally raised dollars cover a higher proportion of district costs.

The Buckeye Institute reports that districts receive as much as \$4,030 extra for each student who enrolls in a charter school. The brief also reports that if charter schools were closed, local districts would have to lower per-pupil expenditures or raise local taxes to accommodate students who would return to districts. Such claims are ridiculously false, deceitful, and patently misrepresent how the funding of public schools works.

If charter schools closed and a large portion of students returned to district schools, this might present difficulties for the district, depending on the degree of advance notice.³⁰ However, the district would not have to alter its local taxes, and it would still receive the same amount of revenues per pupil. The only difference is that the state share of the overall district costs would increase, with a shift in public funding from the charters to the school districts.

VII. USEFULNESS OF THE REPORT FOR GUIDANCE OF POLICY AND PRACTICE

The report is so misleading that it’s tempting to see the distortions as intentional. Policymaking needs to be based on valid and well-reasoned evaluations and research; for this reason, the Buckeye Institute policy brief has limited use.

Notes and References

- ¹ Carr, M., & Lear, B. (2008). *Public charter schools: A great value for Ohio's public education system*. Policy Brief dated: November 14, 2008. Columbus: The Buckeye Institute for Public Policy Solutions.
- ² These are Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown.
- ³ More about the state's school funding program is explained in a document available online from the Ohio Department of Education. Retrieved December 8, 2008, from <http://www.ode.state.oh.us/GD/DocumentManagement/DocumentDownload.aspx?DocumentID=37836>
- ⁴ Legislative Office of Education Oversight. (2003). *Community schools in Ohio: Implementation issues and impact on Ohio's education system, Vol. 1*. Columbus: Author.
- ⁵ Here is a short list of some key research publications that are readily available that would assist the authors in preparing a research brief.
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- ⁶ Two earlier reviews of reports by the first author of this new report also raised concerns about the poor use of prior research. See
- Glass, G. (2006). *Review of "The Financial Impact of Ohio's Charter Schools."* Boulder and Tempe: Education and the Public Interest Center & Education Policy Research Unit. Retrieved December 8, 2008, from <http://epicpolicy.org/thinktank/review-the-financial-impact-ohios-charter-schools>
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- ⁷ Ohio Department of Education (undated). Funding for Community Schools. Retrieved December 8, 2008, from <http://education.ohio.gov/GD/Templates/Pages/ODE/ODEPrimary.aspx?Page=2&TopicID=662&TopicRelationID=878>
- ⁸ Legislative Office of Education Oversight. (2003) . *Community schools in Ohio: Implementation issues and impact on Ohio's education system, Vol. 1*. Columbus: Author.
- ⁹ These reports can be downloaded from the Ohio Auditor of State web site. Retrieved December 8, 2008, from <http://www.auditor.state.oh.us/AuditSearch>, and from <http://www.auditor.state.oh.us/LGS/CommunitySchools/Default.htm>
- ¹⁰ The five-year forecast reports can be downloaded from the Ohio Department of Education's *Ohio Schools - FiveYear Forecasts* web page. Retrieved December 8, 2008, from <http://fyf.oecn.k12.oh.us/>
- ¹¹ While I was writing this review, I consulted available documentation about Ohio's funding formula for schools from online resources. Then I called experts from the Ohio Department of Education (Ms. Kimberly Murnieks) and the Ohio Association of School Business Officials (Ms. Barbara Shaner, Associate Executive Director). This took relatively little time, and the explanations I received were invaluable in preparing my review.
- ¹² The LOEO (2003) state evaluation report (see Appendix K) notes that because state and local funds are combined to cover the costs for special education, schools that enroll students with disabilities are receiving a small portion of funds that were raised by local tax funds. This claim was also explained and supported by Barbara Shaner, Associate Executive Director of the Ohio Association of School Business Officials. Therefore, contrary to claims by the Buckeye Institute, a small portion of locally raised taxes are in fact diverted to charter schools.

- ¹³ Legislative Office of Education Oversight. (2003). *Community schools in Ohio: Implementation issues and impact on Ohio's education system, Vol. 1*. Columbus: Author.
- ¹⁴ A full-time student is one who attends the entire school day and entire school year. Students who attend for less than the entire year will have an FTE equal to the total days/hours attended divided by the number of days/hours in the school year.
- ¹⁵ Poverty-Based Assistance (PBA) was formerly known as Disadvantaged Pupil Impact Aid (DPIA). For a number of years, DPIA and now PBA have served as a major source of state aid to school districts and charter schools with high percentages of economically disadvantaged students.
- ¹⁶ The Ohio Department of Education is required to compute and pay parity aid to school districts and charter schools annually. Parity aid, like equity aid, provides funding beyond the formula aid although it is considered to be a part of the SF3 calculation and is distributed in converse relationship to the local wealth of school districts. In terms of a local wealth measure, the lowest 80 percent of school districts and the charter schools within them received parity aid.
- ¹⁷ In many states, the funding for a specific year does not follow students that move after the official head count is taken in the early autumn. But Ohio has a separate head count later in the year.
- ¹⁸ While some point out that this is a result of insufficient funds, it is fair to say that this is a result of the lower level of experience or qualifications of the teachers (on average) that are recruited or that seek employment in charter schools. See Cannata, M. (2008). *Teacher qualifications and work environments across school types*. Boulder and Tempe: Education and the Public Interest Center & Education Policy Research Unit. Retrieved November 27, 2008, from http://epicpolicy.org/files/CHOICE-06-Cannata2_0.pdf.
- ¹⁹ For example, a charter school with four teachers can choose to admit only 88 students to ensure that each class will have 22 students. A public school with four teachers may end up with 70 students or 95 students. Adjustments can be made and more staff hired, but the teacher-student ratio in traditional public schools often will not be the most cost-efficient.
- ²⁰ Legislative Office of Education Oversight. (2003). *Community schools in Ohio: Implementation issues and impact on Ohio's education system, Vol. 1*. Columbus: Author.
- ²¹ Roza, M. (2005). Apples-to-apples fiscal comparisons. In R. Lake & P. Hill (Eds.), *Hopes, fears, & reality: A balanced look at American charter schools in 2005*. Seattle: National Charter School Research Project, University of Washington.
- ²² Legislative Office of Education Oversight. (2003). *Community schools in Ohio: Implementation issues and impact on Ohio's education system, Vol. 1*. Columbus: Author.
- ²³ Miron, G. & Nelson, C. (2002). *What's public about charter schools? Lessons learned about choice and accountability*. Thousand Oaks, CA: Corwin Press. See Chapter 4.
- Legislative Office of Education Oversight. (2003). *Community schools in Ohio: Implementation issues and impact on Ohio's education system, Vol. 1*. Columbus: Author.
- ²⁴ Transportation for charter schools has been provided by districts. Starting this year, charter schools can request to receive transportation funds that will be deducted from the revenues that were paid to districts. A small proportion of charter schools were providing vocational technical education.
- ²⁵ Sullins, C., & Miron, G. (2005). *Challenges of starting and operating charter schools: A multi-case study*. Cleveland: Report prepared for The Cleveland Foundation.

- ²⁶ The Office of Community Schools at the Ohio Department of Education administers two federal grants funded through the Public Charter School Program (PCSP). The basic PCSP grant is for schools in their first three years of operation; the PCSP-Dissemination grant is for schools in successful operation more than three years and who have a promising practice to disseminate.
- ²⁷ See chapter 4 in Miron, G. & Nelson, C. (2002). *What's public about charter schools? Lessons learned about choice and accountability*. Thousand Oaks, CA: Corwin Press.
- ²⁸ Molnar, A., Miron, G., & Urschel, J. (2008). *Profiles of for-profit education management organizations. Tenth annual report*. Boulder and Tempe: Education and the Public Interest Center & Education Policy Research Unit. Retrieved November 27, 2008, from <http://epicpolicy.org/files/EMO0708.pdf>
- ²⁹ Legislative Office of Education Oversight. (2003). *Community schools in Ohio: Implementation issues and impact on Ohio's education system, Vol. 1*. Columbus: Author, p. vii.
- ³⁰ There is an assumption that all charter school students are coming from traditional public schools and that these students would return to a traditional public school if a charter school were closed. The state evaluation of charter schools notes, however, that only 79 percent of charter school students reported that they had come from district schools.